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TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
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FROM: John Naimo
Auditor-Controller

A handwritten signature in blue ink, reading "John Naimo", is written over the printed name and title.

**SUBJECT: DEPARTMENT OF CHILDREN AND FAMILY SERVICES –
PROCUREMENT FOLLOW-UP REVIEW**

We have completed a follow-up review of the Department of Children and Family Services' (DCFS or Department) 2007 procurement audit. The 2007 procurement audit was completed in two phases and had a combined total of 56 recommendations in areas such as purchasing practices, inventory controls, and appropriate use of program funds. Our follow-up review was intended to determine if DCFS implemented 34 of the 56 recommendations. We did not evaluate the remaining 22 recommendations because they were not as significant or no longer applicable due to various process changes. DCFS management indicated that they have implemented these recommendations.

Summary of Findings

Our review included reviewing purchases and payments sampled from Fiscal Years 2012-13 through 2014-15. This follow-up review disclosed material deficiencies in the Department's procurement operations, including purchasing policy violations, and the absence or circumvention of critical internal controls. Some of the weaknesses we identified in our prior review continue to occur, such as unnecessary purchases, inaccurate or non-existing inventory recordkeeping, circumvention of purchasing limits, and poor gift card controls. Some of these weaknesses resulted in purchase prices thousands of dollars in excess of what otherwise could have been obtained if the Department had complied with existing procurement policies.

In response to our 2007 review, DCFS implemented corrective actions that emphasized establishing new policies and providing training. However, new policies and training will not prevent deliberate circumvention of policies (e.g., bypassing or ignoring purchasing authority and agreement terms, etc.). DCFS needs to continue strengthening efforts to change the culture of the Department's line operations with respect to compliance with administrative standards, emphasizing that all managers and staff must comply at all times with County policies and procedures. DCFS also needs to establish oversight mechanisms to identify policy deviations timely, and hold supervisors and managers accountable for violating policies.

This current follow-up of our 2007 procurement audit notes that DCFS implemented 18 (52%) recommendations, and partially implemented eight (24%), but eight (24%) of the 34 recommendations have not been implemented. DCFS management needs to increase its monitoring to ensure that all outstanding recommendations are fully implemented, corrective actions are sustained, and employee accountability is strengthened.

The following are examples of the deficiencies noted during our review:

- **DCFS needs to ensure staff discontinue using brokers to prevent paying additional costs.** We noted that DCFS staff inappropriately made several purchases through vendors who, in essence, acted as brokers by purchasing items from a manufacturer or other vendor and then charging the Department prices substantially higher than the manufacturer charges. Specifically, we reviewed nine purchases totaling \$18,681, and found that DCFS could have saved at least \$7,995 (43%) if they had purchased the items directly from the originating manufacturer/company or authorized reseller. It is important to note that these brokers often purchased the items from a registered County vendor; therefore, DCFS had the ability to purchase these same items at a reduced price directly from the vendor the broker used.

DCFS' attached response indicates that their Procurement staff attended procurement training conducted by the Internal Services Department (ISD) which will assist buyers in identifying a larger pool of registered vendors to ensure the Department receives the lowest price for goods and services. In addition, DCFS management reminded staff of the expectations to adhere to purchasing guidelines and instructions.

- **DCFS needs to ensure staff comply with agreement purchase order terms, and submit purchase requisitions to ISD for non-agreement purchases exceeding the Department's delegated authority.** During our prior review, we noted that DCFS' Procurement Section ignored agreement terms and bypassed established County solicitation requirements, resulting in higher pricing for some purchases. During the current review, we continued to find similar issues. For

example, DCFS purchased non-agreement items, totaling \$11,444, on three (18%) of the 17 agreement purchases we reviewed. DCFS did not obtain three quotes for any of these three purchases, as required for non-agreement purchases, since the purchases were incorrectly processed using agreement purchase orders. In addition, one of these purchases exceeded the Department's \$5,000 delegated authority, and thus the requisition for the purchase should have been submitted to ISD for processing.

DCFS' attached response indicates that their Procurement staff attended training conducted by ISD to reinforce purchasing practices for goods and services. In addition, DCFS management reminded Procurement staff to comply with ISD guidelines and the recommendations contained in this report.

- **DCFS needs to ensure staff discontinue ordering unnecessary supplies.** In our initial review, the Department maintained an excessive inventory of printer toner cartridges (toners). During our current review, we found that while DCFS has made improvement, they continue to maintain unnecessary inventory of toners. Monthly orders are placed without conducting usage analyses or considering available inventory. For example, one of the DCFS offices (offices) we reviewed had enough toner to last over two years. In addition, we noted that another office had excess toners and had Procurement staff pick up 171 extra toners, totaling approximately \$28,000, for re-distribution elsewhere in the Department.

DCFS' attached response indicates that they reminded Procurement staff to only order items when needed and to reduce excessive orders appropriately. In addition, DCFS indicated that they disbursed excessive toners to other offices as needed, and has established protocols to keep the quantity of toner on hand at a level reasonably sufficient to meet the needs of the Department.

- **DCFS needs to ensure staff maintain perpetual inventory records and update them timely as additions and deletions occur.** Our current review noted that 60% of inventory items we counted did not agree to the offices' inventory records. We also noted that perpetual inventory records are not maintained at all offices for gift card inventory, as recommended in our 2007 audit.

DCFS' attached response indicates that the mentioned offices have corrected their inventory and have implemented a plan to ensure perpetual inventory records are maintained and updated timely. In addition, DCFS plans to expand existing fiscal gift card policy to include gift card activities conducted at each office.

- **DCFS practices demonstrate ongoing control weaknesses over gift card inventory, and similar concerns with event tickets.** We noted staff providing gift cards and event tickets to individuals not listed in Department records, not obtaining client signatures as proof of receipt, and not recording issuance data that is critical to ensuring effective control and accountability such as serial numbers and quantities issued.

DCFS' attached response indicates that they plan to expand existing fiscal gift card policy to include gift card activities conducted at each office. In addition, DCFS plans to meet with office staff quarterly to reinforce existing policies.

- **DCFS needs to ensure that program funds are used for reasonable and necessary purposes.** Our prior review noted that program funds were used to purchase tickets to events which included DCFS employees and unidentified "potential mentors" as attendees. In our current review, we noted that DCFS continues to regularly issue extra event tickets to families without an indication of who received the tickets or why the extra tickets were issued.

DCFS' attached response indicates that an extra adult ticket will only be provided for transportation purposes or assistance with particular children that may require extra supervision, and all individuals receiving tickets would be included in the log.

Review of Report

During the course of our review, we alerted DCFS' Executive Management to our findings so corrective actions could be initiated prior to the issuance of this report. We discussed our report with DCFS management. The Department's response (Attachment II) indicates general agreement with our findings and recommendations.

We thank DCFS management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:PH:RS

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Philip L. Browning, Director, Department of Children and Family Services
Dave Chittenden, Chief Deputy Director, Internal Services Department
Public Information Office
Audit Committee

DEPARTMENT OF CHILDREN AND FAMILY SERVICES PROCUREMENT FOLLOW-UP REVIEW

Background and Scope

In 2007, we completed a review of the Department of Children and Family Services' (DCFS or Department) compliance with County purchasing policies and procedures. Our review was conducted in two phases, resulting in the issuance of separate reports, with a cumulative total of 56 recommendations in areas such as purchasing practices, inventory controls, and appropriate use of program funds. We have completed a follow-up review of the 2007 reviews to determine if DCFS implemented 34 of the 56 recommendations. We did not evaluate the 22 recommendations that are less material and/or no longer applicable due to various process changes.

We reviewed DCFS' procurement practices for compliance with County policies and procedures. Our review included reviewing purchases and payments sampled from Fiscal Years (FY) 2012-13 through 2014-15, visiting the Department's warehouses and offices, evaluating existing internal controls over the purchasing process, and interviewing procurement management, staff, and vendors. DCFS' 16 Procurement staff processed approximately 7,350 purchase orders, totaling \$19.2 million in FY 2014-15.

DEPARTMENTAL CULTURE AND OVERSIGHT

This follow-up review disclosed material deficiencies in the Department's procurement operations, including purchasing policy violations, and the absence or circumvention of critical internal controls. Some of the weaknesses we identified in our prior review continue to occur, such as unnecessary purchases, inaccurate or non-existing inventory recordkeeping, circumvention of purchasing limits, and poor gift card controls. Some of these weaknesses resulted in purchase prices thousands of dollars in excess of what otherwise could have been obtained if the Department had complied with existing procurement policies.

In response to our 2007 review, DCFS implemented corrective actions that emphasized establishing new policies and providing training. However, new policies and training will not prevent deliberate circumvention of policies (e.g., bypassing or ignoring purchasing authority and agreement terms, etc.). DCFS needs to continue strengthening efforts to change the culture of the Department's line operations with respect to compliance with administrative standards, emphasizing that all managers and staff must comply at all times with County policies and procedures. DCFS also needs to establish oversight mechanisms to identify policy deviations timely, and hold supervisors and managers accountable for violating policies. The following are examples of Department staff violating critical internal controls, including knowingly not following important County purchasing policies. All of these examples, except the brokered purchases, are substantially similar to our 2007 findings.

- DCFS purchased items that exceeded their delegated authority, and did not consistently obtain three price quotes for some non-agreement items purchased.
- DCFS offices do not consistently maintain perpetual inventory records or conduct physical inventories of gift cards, and do not have effective controls to track gift card inventory or issuances. Gift cards are cash equivalents and susceptible to theft.
- The number of event tickets DCFS purchases as recreational opportunities for client families exceed the number of family members receiving the tickets. DCFS staff did not ensure clients signed for receipt of tickets, resulting in a lack of accountability for some tickets, and provided tickets to individuals not included in the Department's database of eligible clients.
- DCFS purchases some non-agreement items from vendors who act as brokers to obtain the items from the manufacturer, company, or authorized reseller, and add a substantial price mark-up. In some instances, the vendor DCFS used obtained the items from a registered County vendor, and then charged a much higher price than the price that was available from the registered vendor.
- DCFS does not maintain adequate records to support the disposal/donation of equipment. Each donation/disposal should have been supported by a Property Pick-Up Receipt, approved by a supervisor. However, some of the Property Pick-Up Receipts we reviewed were altered, incomplete, or lacked supervisory approval. In one instance, we confirmed with one Board of Supervisors (Board) approved donation agency representative that DCFS staff had recently asked him to sign a Property Pick-Up Receipt for items he may have picked up in May 2014.
- Our inventory count did not match the Department's inventory records for 60% of the stockroom items we sampled.

The totality of our findings, and numerous discussions with DCFS management and staff, demonstrate that the Department's administrative compliance culture is substantially driven by expediency at the expense of generally accepted business practices and County internal control requirements. The Department's leadership needs to continue to review and strengthen strategies that set a clear tone of fiscal responsibility, accountability, and compliance with County policies and procedures. These strategies need to include establishing ongoing management oversight and control mechanisms to ensure changes are sustained and permeate all facets of the Department's administrative activity.

New Recommendations**Department of Children and Family Services management:**

1. **Review and strengthen strategies that set a clear tone of fiscal responsibility, accountability, and compliance with County policies and procedures.**
2. **Review and strengthen management oversight and control mechanisms to ensure strategies are sustained and permeate all facets of the Department's administrative activity.**

COMMENTS AND RECOMMENDATIONS**Status of Prior Recommendations**

We noted DCFS implemented 18 (52%) of the 34 recommendations we reviewed, and partially implemented eight (24%) recommendations, but eight (24%) recommendations have not been implemented. DCFS management needs to increase its monitoring to ensure all outstanding recommendations are fully implemented, employees follow established procedures, and management monitors to ensure corrective actions are sustained. Below is the status of the 16 recommendations the Department has not fully implemented.

Phase I**Recommendation #9**

Ensure Procurement Section complies with the agreement terms and submits a purchase requisition to ISD for non-agreement purchases exceeding the Department's delegated authority.

Current Status: NOT IMPLEMENTED

The Internal Services Department (ISD), in its capacity as County Purchasing Agent, has delegated DCFS the authority to purchase non-agreement items under \$5,000. DCFS must still comply with County purchasing policies and procedures when making non-agreement purchases under their delegated authority, including obtaining three price quotes for purchases over \$1,500. All non-agreement purchases over the Department's delegated authority must be processed through and by ISD.

In addition, ISD establishes purchasing agreements with vendors for commonly purchased items. Departments can purchase items covered by the agreements without obtaining price quotes, and agreement purchases are not subject to delegated authority limits. In our prior review, we noted that the Department purchased non-agreement items using agreement purchase orders, thus bypassing the County purchasing bid

requirements and exceeding their delegated authority, instead of submitting these purchases to ISD as required.

During our current review, we found that DCFS purchased non-agreement items on three (18%) of the 17 agreement purchases we reviewed, totaling \$11,444. DCFS should have obtained price quotes for two of these purchases. The third purchase totaled \$6,793, which exceeded the Department's delegated authority and thus was required to be submitted to ISD.

Recommendation #12

Ensure Procurement staff immediately discontinues the practice of ordering excessive quantities of supplies, and that supplies are ordered only when needed.

Current Status: PARTIALLY IMPLEMENTED

County Fiscal Manual (CFM) Section 5.2.3 requires that inventory items should only be ordered when needed and with proper authorization. In our initial review, the Department maintained an excessive inventory of over 5,500 printer toner cartridges (toners), and based on printer usage many of the toners were expected to expire before being needed.

Based on our review of three DCFS offices, it appears that the excessive toner identified in our prior review significantly decreased. However, we noted that the Department continues to maintain unnecessary inventories of toners and does not order toner based on need. Procurement staff place monthly orders based on re-order points established by offices. However, the offices do not always notify Procurement staff when these quantities should be adjusted. In addition, Procurement staff do not ask the offices what they have on hand and do not conduct usage analyses to verify the quantity needed.

We reviewed the usage data for one office during a 45-day period and found it used 19 (5%) of the 371 toners in stock. At this rate, the office would have enough toner to last over two years. In addition, we noted that another office accumulated excess inventory and had Procurement staff pick up 171 extra toners, totaling approximately \$28,000, for re-distribution elsewhere in the Department. Neither of these offices changed their automatic shipment orders for at least a nine-month period.

In another example of excessive quantities of supplies, DCFS Procurement staff purchased 1,000 customized placement binders from a vendor, totaling \$34,880, in March 2013 even though they had only received requests to purchase 190 binders. DCFS' Procurement Manager indicated he ordered 1,000 binders because it takes approximately six months to receive them, and they needed extra stock to fulfill future requests from the offices. However, we noted that DCFS actually received the binders within three months of placing the order, in June 2013, and their next request from the offices for 120 binders wasn't received until November 2013. In addition, as of February

2015, DCFS still had 300 binders, totaling \$10,464, in their stockroom. Thus, the quantity of binders ordered by DCFS was not justified because it fulfilled the Department's needs for approximately two years into the future.

Recommendation #15

Maintain perpetual inventory records for gift cards and have personnel with no other gift card responsibilities conduct physical inventories of the cards every six months.

Current Status: PARTIALLY IMPLEMENTED

DCFS' Bureau of Finance and Administration (BFA) Gift Card Unit approves office gift card requests, and receives and issues gift cards. BFA also maintains perpetual inventory records for gift cards. However, once gift cards are distributed to the offices, the offices do not always maintain perpetual inventory records or conduct physical inventories of the gift cards. We visited three DCFS offices that had recently received gift cards, and noted that two (67%) offices did not maintain a perpetual inventory. Gift cards are cash equivalents and susceptible to theft, and controls such as perpetual inventory records strengthen accountability for cards until they are provided to a client.

Recommendation #16

Ensure the functions of purchasing, receiving, and distributing gift cards are adequately segregated.

Current Status: PARTIALLY IMPLEMENTED

In our prior review, we noted the Procurement Section ordered, received, and distributed gift cards to the offices. Since our review, DCFS transferred the responsibility of receiving, distributing gift cards, and maintaining perpetual inventory records to BFA. DCFS should further enhance their internal controls by separating the functions of having custody of inventory and recordkeeping responsibilities. In addition, we noted the offices do not have adequate separation of duties. For example, the gift card custodian at one office requests, receives and issues gift cards, updates inventory records, and prepares monthly gift card reconciliations. In another office, one staff receives gift cards, has access to the gift card safe, and updates inventory records.

Recommendation #24

Ensure staff independent of Procurement conduct Department-wide physical inventories of warehouses and stock/supply rooms annually.

Current Status: PARTIALLY IMPLEMENTED

CFM Section 5.3.2 requires departments to conduct annual physical inventories. When conducting annual physical inventories, departments are required to utilize two-person

count teams, obtain supervisor approval on completed tally sheets, and report significant differences between counts and inventory records to the Auditor-Controller's Office of County Investigations.

Each office is responsible for conducting and documenting their annual physical inventory. The results of the annual physical inventory are typically reported to the Clerical Administrators at the offices. We visited three offices that had not conducted physical inventories during our prior review, and noted that although all three recently conducted physical inventories, they did not follow established procedures for completing the inventories.

For example, DCFS' Bureau of Information Systems (BIS), which maintains all information technology (IT) equipment, never inventoried one of their computer equipment stockrooms where items such as desktop computers, monitors, and software are stored. We also noted that their last inventory was conducted by only one staff who also orders, receives, and issues inventory. In addition, the inventory count sheets were not annotated to indicate discrepancies between the physical counts and inventory records, and were missing supervisory approval as required by the CFM. This employee could misappropriate supplies and record a different inventory count to avoid being detected.

We also noted staff at another office adjusted (i.e., increased and decreased) inventory records to reflect actual quantities counted during the annual physical inventory, without any management review or approval. It is important to obtain management approval when adjusting inventory records to ensure the changes are accurate and appropriate. Lastly, we noted that staff at the third office do not compare the physical inventory counts to the inventory records to identify and resolve/investigate discrepancies, and do not adjust the inventory records to match the physical counts.

Recommendation #25

Ensure staff periodically evaluates inventory for obsolescence.

Current Status: PARTIALLY IMPLEMENTED

CFM Section 5.2.6 requires that departments periodically evaluate inventory for obsolescence, and report identified items to appropriate management for disposal. We noted that most offices evaluate inventory for obsolescence and notify Procurement when disposal is necessary. However, DCFS' BIS does not periodically evaluate their IT equipment inventory for obsolescence, and staff indicated that the majority of the equipment stored in one stockroom was obsolete.

Recommendation #26

Ensure perpetual inventory records are maintained and updated timely as additions and deletions occur.

Current Status: NOT IMPLEMENTED

CFM Section 5.2.6 requires departments to maintain perpetual inventory records and ensure that inventory records are accurate by recording additions and deletions as they occur. We reviewed inventory records at three offices and noted all three offices visited did not maintain complete and accurate perpetual inventory records, as discussed below.

- We conducted a physical inventory of 50 different items maintained in the stockrooms (including toners, monitors, batteries, etc.) and noted that the quantity on-hand for 30 (60%) of these items did not match the respective office's inventory records. For example, one office's inventory records indicated that 38 toners were in stock; however, we only counted one during our visit. In addition, we found 23 other inventory items that were not accounted for on any inventory records, which included 66 headsets, 14 toners, four printers, and three computer monitors.
- We found 25 terminated employees indicated as laptop custodians on BIS' laptop inventory records, including one who had been terminated for over six months. We confirmed that 22 (88%) of the 25 laptops were reassigned to other employees. However, at the time of our review, we were unable to locate the remaining three laptops, totaling \$3,917. Subsequent to our review, BIS indicated that the three laptops were located and two were reassigned.

Five (14%) of the 36 laptops reviewed had an inaccurate custodian and/or location recorded on inventory logs. In addition, we noted 319 laptops appeared twice on BIS' inventory records with a different custodian or location indicated for the same laptop. It is unclear to whom or where each of these laptops is assigned.

- We reviewed the Emergency Response Command Post's (ERCP) inventory records for 180 headsets, with a total purchase cost of \$57,398, and noted significant issues with the recordkeeping and security of these items. Specifically, ERCP did not maintain accurate inventory records for the headsets, and we noted 11 headsets, totaling \$3,515, appear to be unaccounted for per the inventory records. We also noted that the 78 unissued headsets were maintained in a locked conference room used by various staff. In order to ensure accountability, the unissued headsets should be immediately moved to a secure location and accurately accounted for.

Recommendation #27

Ensure the functions of ordering, receiving, conducting physical inventories, and recording transactions are adequately segregated.

Current Status: NOT IMPLEMENTED

We noted that the three DCFS offices we visited do not properly segregate the functions of ordering, receiving, conducting physical inventories, and recording transactions, as required by CFM Section 5.2.3. Specifically, we found that two offices had the same employee responsible for ordering, receiving, and issuing the inventory. For the remaining office, both stockroom clerks received, issued, and updated inventory records.

Recommendation #30

DCFS management ensure supplies and equipment inventories are properly secured and access is limited to authorized personnel.

Current Status: NOT IMPLEMENTED

CFM Section 5.2.5 requires stockrooms to be secured against unauthorized access. The stockrooms at two (67%) of the three DCFS offices we visited were not properly secured. For example, at BIS, three staff from a different section had access to BIS' stockroom, where high dollar value items were stored (e.g., laptops, monitors, etc.). We also noted that the BIS stockroom clerk kept toners valued at \$3,633 at her desk. In addition, we noted that the master key to another BIS stockroom, where toners and office supplies are maintained, was kept in an unlocked cabinet, which is accessible to everyone on that floor. Lastly, when we arrived at the second DCFS office, we noted that the stockroom door was left unlocked for an extended period of time.

Recommendation #31

Develop written procedures for the disposal of surplus property.

Current Status: PARTIALLY IMPLEMENTED

Although DCFS developed some desk procedures/guidelines for the disposal of surplus property, we noted that the procedures were outdated, and did not include the requirements of the current process. Specifically, the procedures did not reference all of the forms currently required (i.e., DCFS 250 and Property Pick-Up Receipt) when disposing of surplus/obsolete inventory. Subsequent to our review, DCFS Procurement updated these procedures.

Recommendation #35

Periodically review disposed surplus/obsolete items for appropriateness and ensure the items were properly approved for disposal.

Current Status: NOT IMPLEMENTED

Before items are disposed of, DCFS management should review and document their review of surplus/obsolete items to ensure the proper disposal forms (e.g., DCFS 250

and ISD 635) are prepared in accordance with DCFS and County policy. We compared the Property Pick-Up Receipts to the approved disposal forms, and found two (20%) of the ten Property Pick-Up Receipts did not match. Specifically, we noted that 24 toners, ten keyboard trays, one printer, and various equipment that appeared on the Property Pick-Up Receipts, were not approved for disposal.

Recommendation #37

Ensure price quotes are obtained in accordance with County purchasing policies.

Current Status: NOT IMPLEMENTED

As noted above, for items not covered by an ISD agreement (i.e., non-agreement purchases), DCFS can make purchases under \$1,500 without price quotes. DCFS is required to obtain three price quotes for non-agreement purchases between \$1,500 and \$5,000. However, we found several issues with the Department's non-agreement purchases bid process. For four (25%) of the 16 purchases we reviewed, DCFS indicated that they solicited three quotes as required but did not receive responses from one or more of the three vendors contacted. To help ensure that the Department receives the lowest price available, staff should follow-up with vendors to confirm they received solicitation requests, and obtain additional price quotes when vendors continue to be non-responsive.

Recommendation #41

DCFS management require Procurement staff to review agreements prior to making purchases to ensure items are covered by the agreement and that the Department receives the negotiated prices and payment terms.

Current Status: NOT IMPLEMENTED

DCFS purchased non-agreement items on three (18%) of the 17 agreement purchases we reviewed, totaling \$11,444. In addition, one of the three purchases was for envelopes, which was specifically excluded from the agreement. Procurement staff need to carefully scrutinize agreement purchases to ensure they are only for items covered by the agreement, and solicit quotes as appropriate for non-agreement items.

Recommendation #44

DCFS management ensure Finance staff periodically reviews the eCAPS pending/rejected files to identify and resolve transactions that have been in these files for extended periods.

Current Status: PARTIALLY IMPLEMENTED

If the electronic Countywide Accounting and Purchasing System (eCAPS) cannot process a transaction due to missing information, approvals, etc., the System indicates that the status of the transaction is pending or rejected. Departments are required to review their pending/rejected transactions and correct the errors so the transactions can be processed. Our review determined that DCFS only reviews eCAPS pending files, not rejected files. DCFS needs to review both pending and rejected files to resolve any discrepancies. We noted that 47 (50%) of the 94 rejected transactions were more than 30 days old, including 14 transactions that were rejected for over a year.

Recommendation #49

Closely monitor implementation of the eCAPS inventory module at the Department of Public Works and implement it at the earliest opportunity.

Current Status: PARTIALLY IMPLEMENTED

The eCAPS inventory module automates many of the inventory processes (i.e., update/monitor inventory quantities online) that DCFS previously completed manually. With the help of the Auditor-Controller, DCFS began implementing the eCAPS inventory module in 2008, and was fully implemented by July 2009.

During our review, we noted that DCFS does not fully utilize the inventory module to accurately track the inventory maintained at each of the Department's offices. Specifically, the three offices we visited used Excel schedules to track part of their inventory. In addition, as noted in our status of Recommendation #26, we found discrepancies between the Department's inventory records and items we counted at each office.

Phase II

Recommendation #4

Ensure that program funds are used for reasonable and necessary purposes to operate programs.

Current Status: NOT IMPLEMENTED

In our prior review, we noted that program funds were used to purchase tickets to events that included DCFS employees and unidentified "potential mentors" as attendees. During our current review, we noted that program funds were used to purchase event tickets to provide recreational opportunities for client families; however, the individual client names or the correct number of tickets issued were not always recorded on the ticket distribution logs.

We reviewed the distribution logs for six events involving 302 family groups, totaling \$27,681, and noted that for all six (100%) events, an extra ticket was regularly issued to

families without any note of who received the ticket. For example, for the six events we reviewed, an extra ticket was distributed to 240 (79%) of the 302 families and there was no note identifying who the ticket was for, or why the extra ticket was provided. DCFS staff indicated an extra ticket may be issued on occasion for a second adult caregiver if the children have special needs, or if there is another compelling reason an extra caregiver would be needed. However, there is no written policy outlining when an extra ticket may be issued.

We also noted that for four (67%) of the six events reviewed, the number of tickets issued based on the distribution logs did not match the number of tickets purchased. For example, DCFS purchased 385 tickets, but their log indicated 379 tickets were issued. DCFS staff indicated all of the tickets were distributed and could not explain the discrepancy. Due to these recordkeeping errors, it would be difficult to detect if any tickets were misappropriated, or to confirm program funds were used for reasonable and necessary purposes.

Additional Findings

During the course of our follow-up review, we identified additional procurement-related deficiencies which were not identified in our 2007 audit.

Vendors Acting as Brokers for Purchased Items

DCFS obtained a variety of non-agreement commodities such as diapers, smoke detectors, and promotional items. We reviewed packing slips for a sample of purchases and noted they were prepared by different companies/manufacturers than the vendor DCFS used to purchase the items. This indicates that the vendor DCFS selected, acted as a broker by purchasing items directly from the manufacturers/companies for a price less than it charged DCFS and had the items shipped directly to DCFS. In addition, the broker often purchased items from a registered County vendor. Based on our review of nine purchases, totaling \$18,681, the Department could have saved at least \$7,995 (43%) if they had purchased the items directly from the registered County vendor.

Agreement Established Without Effective Vendor Outreach

ISD establishes agreements for commodities frequently purchased by departments. DCFS requested that ISD establish an agreement for bedding items such as blankets, sheets, receiving blankets, and pillows. ISD indicated that when the solicitation was posted publicly on the County's Bid Website, over 100 vendors registered for these commodities received an automated notification, via e-mail, of the bid. ISD subsequently established an agreement for these items after only receiving one response to their solicitation request (a vendor DCFS initially recommended).

We obtained the packing slips for a few DCFS agreement purchases of bedding items and noted that, similar to the non-agreement purchase discussion earlier, the vendor acted as a broker for items covered under the bedding agreement. For example, we

found the vendor purchased pillows directly from the manufacturer for \$24 per case. However, since ISD awarded the vendor a three-year agreement to sell pillows for \$55 per case, DCFS paid a significant mark-up. We also learned that the bedding manufacturer is a registered vendor, so DCFS could have contacted them for a quote.

These inappropriate purchasing practices may be attributable to a lack of effective management oversight, and/or negligence on the part of DCFS Procurement staff. To ensure the practices we identified do not continue to occur, and to ensure compliance with County purchasing and fiscal policies and procedures, DCFS management needs to implement the following recommendations.

New Recommendations

Department of Children and Family Services management:

- 3. Ensure Procurement staff obtain quotes directly from manufacturers/companies or authorized resellers whenever possible to avoid paying broker mark-up pricing, and monitor packing slips and other documentation that can provide indications of broker-facilitated purchases.**
- 4. Enhance management oversight of the procurement process, including sampling purchases for compliance with control standards recommended in this report and in the County Fiscal Manual.**
- 5. Take appropriate corrective actions for staff who violated County fiscal and procurement guidelines.**

Non-Agreement Purchases

ISD establishes agreements with vendors for commonly purchased items through a competitive solicitation process. Departments are not limited by a purchase amount and are not required to obtain price quotes when purchasing items covered by ISD agreements. Departments are required to use an agreement purchase order when purchasing agreement items.

We noted that for two (12%) of the 17 non-agreement purchases reviewed, the items were available from established lower-priced agreement vendors. In total, the Department could have saved at least \$1,777 had they used the agreement vendors. In one instance, DCFS purchased mattresses and frames for \$4,576 using a non-agreement purchase order although the same vendor was already on agreement and offered the mattresses and frames for \$3,354 (27% or \$1,222 less). In the other instance, DCFS purchased deodorant and gloves from a non-agreement vendor for \$1,145, although the items were already available from an agreement vendor for \$590 (48% or \$555 less). DCFS Procurement staff should carefully research items available on agreement to ensure they obtain the best pricing for the Department.

New Recommendation

6. **Department of Children and Family Services management ensure Procurement staff review vendor agreements, and make purchases from the appropriate source (i.e., agreement or non-agreement vendors) to ensure that the Department receives the best pricing.**

General Purchasing and Payment Controls

CFM Chapter 4 requires department staff to complete purchase requisitions when requesting items, and obtain management approval. Procurement staff process approved requisitions and issue purchase orders to vendors for the items requested. Purchase orders are formal agreements between the County and vendors, and include the specific purchasing terms (e.g., item, quantity, price, etc.). When items are received, CFM Section 4.5.2 requires staff to review the receiving document (i.e., packing slip) provided by vendors to confirm that all items were received, and enter Receiving Document (RC) in eCAPS. Once the RC is entered, the invoice can be paid. We reviewed requisitions, purchase orders, and RCs and noted the following:

- **Incorrect quantity ordered** – DCFS prepared a purchase order using substantially incorrect quantities. The approved requisition was for a purchase of 48 frozen meals sold as four cases each containing 12 meals. However, the quantity purchased was 48 cases of 12 meals, or 576 meals. DCFS confirmed they received the amount ordered. Procurement staff need to ensure that requisitioned quantities and ordered quantities are equal, and work with the requester if quantities are only available in lot sizes different than requested.
- **Incomplete purchase order** – For three (75%) of the four non-agreement purchases reviewed, DCFS' Procurement staff did not indicate on the purchase order the size (i.e., ounces) of the items to be purchased. For example, one purchase included 500 baby shampoos and 250 deodorants, but the size of these items was not included on the purchase orders. DCFS Procurement should include this detail on future purchase orders to ensure that the correct sizes are purchased and received.
- **No verification of items received** – A DCFS employee frequently entered RCs into eCAPS to initiate payments without knowledge about whether the items were actually received. We reviewed 20 purchases for which the employee entered RCs and noted that all 20 purchases were delivered to other offices. The employee indicated that other offices would ask her to enter RCs into eCAPS without an accompanying packing slip or proof of delivery when staff who normally process the RCs are out of the office. It may be necessary to have staff who did not receive items enter RCs, but these staff should confirm that the items were received by reviewing confirmation on packing slips before entering the RCs into eCAPS.

- **Missing packing slips** – We noted that DCFS offices do not always receive, review, and maintain the packing slips for orders delivered. For example, we found that for four (57%) of the seven purchases reviewed, DCFS staff were unable to provide the packing slips. In one instance, staff indicated that the vendor delivered the order and did not provide a packing slip.

New Recommendations

Department of Children and Family Services management:

7. **Ensure that requisitioned quantities and ordered quantities are equal, purchase orders indicate the size of the items to be purchased, and work with the requester if quantities are only available in lot or container sizes different than requested.**
8. **Develop and implement written procedures for processing Receiving Documents for other offices, and ensure all staff entering Receiving Documents review and maintain packing slips or other documentation to confirm what the office received from the vendor(s).**

Miscellaneous Charges

CFM Section 4.1.6.5 specifies 17 types of expenditures (e.g., revolving fund purchases, utility charges, uniform allowances, etc.) that should be encumbered against the department's appropriation as a Miscellaneous Charge (MC). Due to their nature, MC expenditures do not require bids or have transaction limits. For FY 2013-14, the Department issued approximately 1,900 MC payments totaling \$2.9 million.

We reviewed nine FY 2013-14 MCs totaling \$17,688, and noted that all nine (100%) were incorrectly classified. These purchases should have been processed by Procurement using a purchase order. For example, DCFS purchased 2,700 teddy bears from one vendor, totaling \$7,358, and incorrectly classified the purchase as an MC, which bypassed the Department's procurement process and exceeded the Department's delegated authority. Though not part of the nine MCs we reviewed, we noted the department purchased an additional \$116,800 of teddy bears during FY 2013-14, again classifying them as an MC. We also noted an instance where DCFS staff bypassed the Department's gift card procurement process by purchasing gift cards totaling \$6,000, and classifying the purchase as an MC. These purchases should have been processed through ISD since they exceeded DCFS' delegated authority.

New Recommendation

9. **Department of Children and Family Services management ensure that expenditures are thoroughly reviewed before being classified as a miscellaneous charge, and processed through Procurement or the Internal Services Department when required.**

Disposal of Surplus/Obsolete Inventory

The County has agreements with several Board-approved donation agencies to pick up surplus/obsolete inventory from the requesting County department. DCFS' Surplus Coordinators review and approve the disposal forms (e.g., DCFS 250 and ISD 635) received from the offices, and contact the donation agencies to schedule when the items can be picked up from the requesting office. The donation agencies are required to sign the Property Pick-Up Receipt when picking up the items. DCFS no longer uses auction companies to sell surplus/obsolete inventory, as noted in our prior review.

We found that for two (20%) of the ten disposal forms reviewed, the ISD 635 was altered to include additional items to be disposed of, but we were unable to determine whether the changes were made after or before the form was approved. For example, we noted that one disposal request was altered to include additional computer equipment (e.g., laptops, docking station, etc.), but we were unable to determine the disposition of these items since the Property Pick-Up Receipt was missing. Subsequent to our review, the Department provided the missing Property Pick-Up Receipt, which had been signed by one of the Board-approved donation agencies. However, we confirmed with the donation agency representative that DCFS staff had recently asked him to sign this Property Pick-Up Receipt for items he may have picked up in May 2014. Therefore, we were unable to confirm the agency actually received those items since the agency did not maintain detailed records of what they picked up in the past.

Lastly, we noted that DCFS' Surplus Coordinator does not include the disposition (e.g., transferred, donated, etc.) of the surplus/obsolete items on the ISD 635, as required. It is important for DCFS to include all required information on the ISD 635 to ensure accountability for the disposition of these items.

New Recommendations

Department of Children and Family Services management:

- 10. Ensure that any changes to the disposal forms (e.g., Department of Children and Family Services 250 and Internal Service Department 635) are reviewed by a supervisor and properly annotated as approved.**
- 11. Ensure Surplus Coordinators follow the Internal Services Department's policies and guidelines for disposing of surplus/obsolete inventory, and that all required information is provided on each form.**

Gift Cards and Events

Gift Card Approval Process

DCFS purchases gift cards (e.g., Target, Wal-Mart, Vons, etc.) to distribute to foster parents and children to purchase necessities (e.g., food, clothing, etc.), or as incentives for participating in the Department's various programs. As previously indicated, DCFS' BFA Gift Card Unit is the centralized processing unit for gift card requests. All gift card requests are required to be submitted to BFA for review and approval before any gift cards may be purchased. Once BFA approves the request, it is sent to DCFS Procurement for ordering. DCFS purchased at least \$109,000 and \$55,000 in gift cards in FYs 2013-14 and 2014-15, respectively.

We reviewed 20 gift card/voucher purchases and noted that one purchase (5%), totaling \$4,987.84, was not submitted to BFA, as required, but sent directly to DCFS Procurement for purchasing. In addition, we noted that none of the event tickets/vouchers (e.g., Knott's Berry Farm, Magic Mountain, etc.) are processed through BFA. Event tickets/vouchers, like gift cards, should be considered cash equivalents with similar internal controls since they are easily converted to cash. DCFS should establish the same purchasing process for event tickets/vouchers that they have for gift cards.

New Recommendations

Department of Children and Family Services management:

- 12. Ensure staff do not circumvent the gift card process, and obtain the Bureau of Finance and Administration's approval for any gift card purchases.**
- 13. Establish the same purchasing process for event tickets/vouchers that they have for gift cards to ensure proper internal controls.**

Gift Card and Event Ticket Issuances, Documentation, and Client Eligibility

DCFS office staff are responsible for verifying client eligibility and documenting event tickets and gift cards issued to clients. DCFS staff are required to obtain the client's signature to document receipt of event tickets and gift cards.

We reviewed various DCFS documents related to event ticket and gift card issuances, and noted the following:

- **Client eligibility not always verified and documented** – We compared the distribution logs for one event to both the Child Welfare System/Case Management System and the Kinship Support Services Program systems to verify the event tickets were issued to eligible clients. We noted that 11 (19%) of

the 58 individuals who received event tickets did not appear in either system; therefore, we were not able to verify these individuals' eligibility. In addition, we noted that a family received four event tickets and did not appear on either system; therefore, we were unable to verify this family's eligibility.

- **Missing client receipts/signatures** – We reviewed documentation for 95 gift card issuances, and noted that for 23 (24%) issuances, we could not verify the client received the gift cards. Specifically, 22 client receipt forms were missing and one client receipt form was missing the client's signature.
- **Incomplete issuance documentation** – We reviewed client receipt forms for five gift card issuances to ensure completeness, and noted that for three (60%) issuances, DCFS staff did not always indicate the quantity of the gift cards/vouchers issued, the serial numbers of the gift cards, or the dollar value of the gift cards on the receipt forms signed by the clients.

Providing gift cards and event tickets to clients/individuals not documented in Department records, missing client signatures, and leaving client receipt form fields blank, each contribute to the undermining of the effectiveness of controls and individual accountability over these high theft potential cash equivalents.

New Recommendations

Department of Children and Family Services management:

14. **Ensure staff verify and document eligibility prior to providing clients with gift cards or event tickets.**
15. **Ensure staff obtain client signatures for all gift cards issued, and include on receipt forms all required information such as the quantity issued, serial numbers, and dollar value.**

Event Planning

Kinship care refers to the care of children by relatives. DCFS' Kinship Support Services Division (Kinship Division) provides services to these families including training, service referrals, caregiver support groups, and respite and recreational opportunities. Kinship Division holds various events for their clients throughout the year that are meant to provide information on available resources, promote permanency, etc. Kinship Division staff are responsible for determining the number of clients who can attend, and maintaining supporting documentation (e.g., sign-in sheets, control logs for tickets issued, etc.).

During our review, we noted that Kinship Division does not have a method to determine the amount of tickets actually needed for the events held, and instead, staff order the maximum number of tickets that they can without going over the Department's \$5,000

delegated non-agreement purchasing authority. Specifically, we noted that tickets purchased for each of the nine events reviewed were between \$4,950 and \$5,000. We also noted that a DCFS office prepaid \$2,305 for a dinner event held for clients in November 2014; however, the actual cost of the event was only \$1,207 since fewer clients attended than the number of dinners purchased. DCFS staff allowed the vendor to keep surplus funds for the Department to use at a later date, rather than receiving a refund of \$1,098. DCFS subsequently held another event with the same vendor in an effort to use the remaining credit. However, it appears that only 49 (49%) of the 101 scheduled clients attended the second event.

DCFS should establish a method for obtaining an accurate count of clients who will be attending each Kinship Division event to avoid unnecessary costs, and collect refunds in a timely manner for all events held where a balance is due back to the Department.

New Recommendations

Department of Children and Family Services management:

- 16. Ensure the quantity of event tickets ordered is appropriately justified in writing, and purchases are not deliberately kept below \$5,000 to avoid the Internal Services Department involvement.**
- 17. Establish a method for obtaining an accurate count of clients who are attending each event to avoid unnecessary costs, and collect refunds in a timely manner for all events held where a balance is due back to the Department.**



PHILIP L. BROWNING
Director

BRANDON NICHOLS
Chief Deputy Director

**County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

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Fifth District

June 22, 2016

To: John Naimo
Auditor-Controller

From: Philip L. Browning
Director

A handwritten signature in black ink, appearing to be "P. Browning", written over the printed name of Philip L. Browning.

RESPONSE TO THE AUDITOR-CONTROLLER'S DEPARTMENT OF CHILDREN AND FAMILY SERVICES – PROCUREMENT FOLLOW-UP REVIEW

Attached is the Department of Children and Family Services' (DCFS) response to the Auditor-Controller's (A-C) report, which details the A-C's findings of DCFS Procurement Follow-Up Review. We have thoroughly reviewed the report and carefully taken into consideration the issues and recommendations outlined. We generally agree with the recommendations contained within this report and we have initiated and actively taken corrective measures that strengthens management controls and oversight in our Procurement, and program and line operations, including areas such as purchasing practices, inventory, and appropriate use of program funds.

We appreciate the opportunity to have DCFS' responses directly included with your final report to the Board of Supervisors. My Department is committed to improving its internal practices to ensure compliance with County Fiscal Policies and anticipates implementing all of the recommendations by August 31, 2016.

Thank you and your staff for the time and resources devoted to the review of our operations.

If you have any questions or require additional information, please have your staff contact Cynthia McCoy-Miller, Senior Deputy Director, at (213) 351-5847.

Thank you.

PLB:CMM:ow

Attachment

c: Cynthia McCoy Miller, Senior Deputy Director
Rogelio Tapia, Administrative Deputy III
Kym Renner, Deputy Director

"To Enrich Lives Through Effective and Caring Service"

**AUDIT RESPONSE
DEPARTMENT OF CHILDREN AND FAMILY SERVICES
PROCUREMENT FOLLOW-UP REVIEW**

Recommendation #1

Review and strengthen strategies that set a clear tone of fiscal responsibility, accountability, and compliance with County policies and procedures.

DCFS Response: Agree. The Department has taken increased measures that reinforce DCFS' executive management commitment of fiscal responsibility, accountability, and compliance with County policies and procedures which include, but are not limited to, discussing audited administrative processes and operations during the monthly Director's All Managers Meetings; sending out periodic compliance and accountability reminders throughout the year; disseminating quarterly reminder memo's regarding compliance expectations for identified high risk and audited areas to all staff from various central administrative divisions; and expanded the DCFS Internal Controls Section (ICS) to enhance the Department's central monitoring ability and to better gauge compliance to procurement and other administrative processes as well as its ability to more timely address non-compliance issues.

In addition, on January 6, 2016, management staff from the Auditor-Controller's office attended the Director's All Managers meeting to re-emphasize to our senior management team the importance of properly completing the Internal Controls Certification Program in order to identify and correct weaknesses in administrative operations.

Additionally, on May 18, 2016, DCFS executive management and its ICS staff met with departmental Regional Administrators (RAs) and Division Chiefs (DCs) with administrative oversight of the audited offices and discussed findings and recommendations contained in this report as well as reiterated expectations to comply with policies and procedures in the indicated areas. In turn, these office managers developed and implemented corrective action plans that address recommendations relevant to each of their respective locations, as appropriate. Managers were also directed to perform ongoing monitoring of staff's compliance and to take appropriate personnel action for any staff not adhering to policies and procedures.

And lastly, to further set a clear tone of fiscal accountability and compliance, as of FY 2014-2015, a key responsibility was added to the Management Appraisal and Performance Plan (MAPP) of senior managers emphasizing their responsibility to manage the administrative function of their operation to ensure adherence to the established policy and procedures involving areas such as personnel, overtime, audits, budgets, internal controls, contracts, facilities, and procurement.

Implementation of the aforementioned strategies is intended to assist DCFS management in its continued efforts to strengthen administrative standards and processes, more timely identify policy deviations and hold managers and supervisors accountable.

Recommendation #2

Review and strengthen management oversight and control mechanisms to ensure strategies are sustained and permeate all facets of the Department's administrative activity.

DCFS Response: Agree. As indicated and detailed in the response for Recommendation #1, the Department has taken increased measures that reinforce its commitment of fiscal responsibility, accountability, and compliance with County policies and procedures. These measures and strategic direction were implemented with aim to create increased compliance and sustainability that permeates throughout all facets of administrative areas within DCFS.

Recommendation #3

Ensure Procurement staff obtain quotes directly from manufacturers/companies or authorized resellers whenever possible to avoid paying broker mark-up pricing, and monitor packing slips and other documentation that can provide indications of broker-facilitated purchases.

DCFS Response: Agree. This is currently being practiced as allowed and within County and ISD purchasing guidelines. On February 1, 2016, DCFS management distributed an updated Procurement Departmental Bulletin to Procurement staff instructing them to comply with recommendations contained within this report and ISD guidelines. On March 1, 2016 and March 3, 2016, Procurement buyers attended Procurement 101 training conducted by ISD which included an expanded search criteria that will increase the pool of registered vendors as part of the determination for the lowest price of goods and services. In addition, on May 19, 2016, the Deputy Director, and Procurement and ICS managers met with Procurement staff to reiterate expectations of their need to adhere to purchasing guidelines and instructions.

Recommendation #4

Enhance management oversight of the procurement process, including sampling purchases for compliance with control standards recommended in this report and in the County Fiscal Manual.

DCFS Response: Agree. Key management personnel, including the Administrative Deputy, Deputy Director, Procurement manager and Procurement supervisors have enhanced internal procurement procedures to strengthen management oversight and ensure compliance with the County Fiscal Manual (CFM) and ISD purchasing policies.

In addition, to further enhance administrative oversight, the Department's ICS is revamping its quality assurance review that includes augmenting the current tool to align with CFM guidelines and Auditor-Controller recommendations. This enhanced quality assurance method will better assist management in its oversight of the Procurement process and will begin in August 2016.

Recommendation #5

Take appropriate corrective actions for staff who violated County fiscal and procurement guidelines.

DCFS Response: Agree. The Department will, upon reasonable discovery, take appropriate corrective action for any staff violating the County fiscal and procurement guidelines.

Recommendation #6

Department of Children and Family Services management ensure Procurement staff review vendor agreements, and make purchases from the appropriate source (i.e., agreement or non-agreement vendors) to ensure that the Department receives the best pricing.

DCFS Response: Agree. As indicated in the response for Recommendation #3, on February 1, 2016, DCFS management distributed an updated Procurement Departmental Bulletin to Procurement staff instructing them to comply with recommendations contained within this report and ISD guidelines. On March 1, 2016 and March 3, 2016, Procurement buyers were required to attend Procurement 101 training conducted by ISD that reinforced purchasing practices to assist the Department in receiving the best pricing for goods and services. In addition, on May 19, 2016, the Deputy Director, and Procurement and ICS managers met with Procurement staff to reiterate expectations regarding their need to adhere to purchasing guidelines and instructions, as well as reminded staff to continue to review and utilize applicable vendor agreements prior to obtaining three bids from non-agreement vendors for purchases within the Department's delegated authority.

Recommendation #7

Ensure that requisitioned quantities and ordered quantities are equal, purchase orders indicate the size of the items to be purchased, and work with the requester if quantities are only available in lot or container sizes different than requested.

DCFS Response: Agree. As indicated in the response for Recommendation #3, on February 1, 2016, DCFS management distributed an updated Procurement Departmental Bulletin to Procurement staff which instructs them to comply with recommendations contained within this report and ISD guidelines. In addition, on May 19, 2016, the Deputy Director, and Procurement and ICS managers met with Procurement staff to reiterate expectations regarding their need to adhere to purchasing guidelines, which included reminding staff to continue to work with requestors to ensure that approved requisitioned quantities and ordered quantities of items are equal, and in instances where quantities are sold in other sizes or amounts, work with the requestor in purchasing the difference based on availability and need.

Recommendation #8

Develop and implement written procedures for processing receiving documents for other offices, and ensure all staff entering receiving documents review and maintain packing slips or other documentation to confirm what the office received from the vendor(s).

DCFS Response: Agree. The DCFS Procurement manager developed internal procedures that were shared with regional offices during the May 25, 2016 Clerical Administrators meeting. Clerical Administrators (CAs) were instructed on the correct application of the process; and they subsequently incorporated these procedures for processing receiving documents. The CAs also provided training to their subordinate staff which requires them to include proper review and maintenance of packing slips or related documentation to respective staff who enter receiving documents into eCAPS to substantiate receiving.

Recommendation #9

Department of Children and Family Services management ensure that expenditures are thoroughly reviewed before being classified as a miscellaneous charge, and processed through Procurement or the Internal Services Department when required.

DCFS Response: The Department's Fiscal Operations Division (FOD) has reviewed past expenditures classified as miscellaneous charges (MC) to determine those that were misclassified.

FOD will work with Procurement management and frequent MC requestors to ensure the appropriate encumbrance mechanism is utilized for purchasing goods/services.

Recommendation #10

Ensure that any changes to the disposal request forms (i.e., Department of Children and Family Services 250 and Internal Service Department's 635) are reviewed by a supervisor and properly annotated as approved.

DCFS Response: Agree. On February 5, 2015, a memo was developed and distributed to Procurement supervisors and staff. Through this communication, employees and supervisors were reminded to follow ISD policies and guidelines for disposal of surplus and obsolete inventory, including the duty of supervisors to review, annotate, and approve disposal requests forms in accordance with guidelines.

Recommendation #11

Ensure Surplus Coordinators follow the Internal Services Department's policies and guidelines for disposing of surplus/obsolete inventory, and that all required information is provided on each form.

DCFS Response: Agree. On February 5, 2015, a memo was developed and distributed to Procurement supervisors and staff. Through this communication, employees and supervisors were reminded to follow ISD policies and guidelines for disposal of surplus and obsolete inventory, and ensure that proper documentation is kept on file.

Recommendation #12

Ensure staff do not circumvent the gift card process, and obtain the Bureau of Finance and Administration's approval for any gift card purchases.

DCFS Response: Agree. The DCFS Bureau of Finance and Administration (BFA) management will be expanding its existing fiscal gift card policy to include gift card activities conducted in the Department's regional operations. We anticipate a completion date of August 1, 2016. Upon completion, the updated policy will be issued department-wide.

In preparation for the updated and expanded policy, BFA administrative staff attended the previously mentioned May 25, 2016 CA meeting to discuss and reinforce current departmental procurement policies as well as to share the audit findings pertaining to the issuance of gift cards. Based on that discussion, a follow-up meeting was scheduled for June 22, 2016.

In addition to meeting quarterly with the CAs, BFA management plans to continually have a presence in several other meetings involving our regional operations to reinforce existing policies.

Recommendation #13

Establish the same purchasing process for event tickets/vouchers that they have for gift cards to ensure proper internal controls.

DCFS Response: Agree. See DCFS' response for Recommendation #12.

Recommendation #14

Ensure staff verify and document eligibility prior to providing clients with gift cards or event tickets.

DCFS Response: Agree. See DCFS' response for Recommendation #12.

Recommendation #15

Ensure staff obtain client signatures for all gift cards issued, and include on receipt forms all required information such as the quantity issued, serial numbers, and dollar value.

DCFS Response: Agree. See DCFS' response for Recommendation #12.

Recommendation #16

Ensure the quantity of event tickets ordered is appropriately justified in writing, and purchases are not deliberately kept below \$5,000 to avoid ISD involvement.

DCFS Response: Partially Agree. The specific findings noted in the report for these requests were not intentionally kept below \$5,000 to avoid agreement purchasing authority, rather they were used to maximize the Department's ability to recruit vital resources for our children. It is important to note that these events are for foster parent and adoptions recruitment purposes in which the Department is attempting to maximize its outreach efforts to acquire more child placement resources. In the findings pointed out in this report, the number of tickets requested were determined by the anticipated amount of relative families and potential new relative caregivers that could be in attendance. Attendance at many of these events oftentimes is not precisely known in advance as potential resource families are always welcomed up until the day of the event. Nevertheless, the Department will further scrutinize requisitions just below the \$5,000 purchasing authority allowed by ISD.

Recommendation #17

Establish a method for obtaining an accurate count of clients who are attending each event to avoid unnecessary costs, and collect refunds in a timely manner for all events held where a balance is due back to the Department.

DCFS Response: Agree. The Department's Kinship Division manager has developed a method to project a more accurate count of clients attending events to the extent possible. In addition, DCFS FOD will continue to reconcile payments made to vendors against the actual costs and ensure the collection of refunds in a timely manner in an effort to avoid overpayments.

Prior Recommendations - Phase I

Recommendation #9

Ensure Procurement Section complies with the agreement terms and submits a purchase requisition to ISD for non-agreement purchases exceeding the Department's delegated authority.

DCFS Response: Agree. As indicated in the response for Recommendation #3, on February 1, 2016, DCFS management distributed an updated Procurement Departmental Bulletin to Procurement staff instructing them to comply with recommendations contained within this report and ISD guidelines. On March 1, 2016 and March 3, 2016, Procurement buyers were required to attend Procurement 101 training conducted by ISD to reinforce purchasing practices for goods and services. In addition, on May 19, 2016, the Deputy Director, and Procurement and ICS managers met with Procurement staff to reiterate expectations of their need to adhere to compliance with purchasing guidelines and instructions, which also placed an emphasis on submitting purchase requisitions to ISD for non-agreement purchases exceeding the Department's delegated authority.

Recommendation #12

Ensure Procurement staff immediately discontinues the practice of ordering excessive quantities of supplies, and that supplies are ordered only when needed.

DCFS Response: Agree. As indicated in the response for Recommendation #3, on February 1, 2016, DCFS management distributed an updated Procurement Departmental Bulletin to Procurement staff instructing them to comply with recommendations contained within this report and ISD guidelines to ensure that only needed commodities are ordered and that excessive orders are reduced appropriately. In reference to the number of toners in stock at the time of the review, the Department took corrective measures which involved disbursing them to other needed offices; and has put into place a protocol to keep the quantity of toners on hand at an acceptable level to meet the needs and significant workload demands of its 20 regional office sites and court operations.

Recommendation #15

Maintain perpetual inventory records for gift cards and have personnel with no other gift card responsibilities conduct physical inventories of the cards every six months.

DCFS Response: Agree. As indicated in the response for Recommendation #12, the DCFS BFA management will be expanding its existing fiscal gift card policy to include gift card activities conducted in the Department's regional operations. We anticipate a completion date of August 1, 2016. Upon completion, the updated policy will be issued department-wide.

In preparation for the updated and expanded policy, BFA administrative staff attended the previously mentioned May 25, 2016 CA meeting to discuss and reinforce current departmental procurement policies, as well as to share the audit findings pertaining to the issuance of gift cards. Based on that discussion, a follow-up meeting was scheduled for June 22, 2016.

In addition to meeting quarterly with the CAs, BFA management plans to continually have a presence in several other meetings involving our regional operations to reinforce existing policies.

Recommendation #16

Ensure the functions of purchasing, receiving, and distributing gift cards are adequately segregated.

DCFS Response: Agree. The Department will ensure that the functions of purchasing, receiving and distributing gift cards are adequately separated.

Recommendation #24

Ensure staff independent of Procurement conduct Department-wide physical inventories of warehouses and stock/supply rooms annually.

DCFS Response: Agree. This process has been implemented as each regional office is responsible for conducting its own physical inventory of its stock/supply rooms. The three regional offices noted in the report regarding this particular finding have corrected their isolated weaknesses and have each implemented a sustainable plan to satisfy this recommendation which includes BIS conducting a physical inventory of all of its stockrooms by staff independent of the procurement function, Revenue Enhancement requiring supervisory review and approval for inventory count adjustments, and Emergency Response Command Post/Child Protection Hotline (ERCP/CPH) management implementing a monthly physical inventory to reconcile counts with inventory records and investigate and resolve discrepancies if found.

Recommendation #25

Ensure staff periodically evaluates inventory for obsolescence.

DCFS Response: Agree. The Department has taken steps to review and periodically evaluate inventory usefulness, and dispose of obsolete inventory during the annual physical inventory process. Obsolete inventory in the BIS cage has been salvaged and proper documentation has been completed and signed by appropriate personnel and level of management.

Recommendation #26

Ensure perpetual inventory records are maintained and updated timely as additions and deletions occur.

DCFS Response: Agree. The indicated process has been implemented as each regional office is responsible for the accurate count of inventory in its stock/supply rooms. The three regional offices noted in this report have corrected their isolated weaknesses and have each implemented a sustainable plan to satisfy this recommendation, which includes BIS conducting a physical inventory of all of its stockrooms by staff independent of the procurement function and updating its laptop/tablet inventory Bar Code Tracking System in which all laptops are accounted for; and ERCP/CPH management now storing the headsets in a secure and locked location. In addition, a Security Incident Report (SIR) was filed on May 31, 2016 for the 11 missing headset parts noted in this report.

Recommendation #27

Ensure the functions of ordering, receiving, conducting physical inventories, and recording transactions are adequately segregated.

DCFS Response: Agree. The two regional offices noted in this report have modified the assignment of tasks to ensure a separation of duties exist within their respective operations and improve their level of compliance in this area.

Recommendation #30

DCFS management ensure supplies and equipment inventories are properly secured and access is limited to authorized personnel.

DCFS Response: Agree. The two operations noted in this report have implemented corrective action to satisfy this recommendation. For example, BIS management has installed motion detector cameras that focuses on the entrances in the staging area to ensure monitoring of access to and equipment movement in and out of the room. In addition, staff access to the supply room has been

restricted to authorized personnel only. Likewise, Revenue Enhancement management reviewed its security controls over the supply rooms and installed the key card access system on the stockroom door to better secure items and restrict access to authorized personnel only.

Recommendation #31

Develop written procedures for the disposal of surplus property.

DCFS Response: Agree. On February 5, 2015, a memo was developed and distributed to Procurement supervisors and staff instructing them to follow ISD policies and guidelines for disposal of surplus property and obsolete inventory, and that proper documentation is kept on file.

Recommendation #35

Periodically review disposed surplus/obsolete items for appropriateness and ensure the items were properly approved for disposal.

DCFS Response: Agree. On February 5, 2015, a memo was developed and distributed to Procurement supervisors and staff instructing them to follow ISD policies and guidelines for disposal of surplus and obsolete inventory. This memo also includes a more stringent procedure to address this recommendation in that all documents relating to disposed surplus/obsolete items are returned to and reviewed by the Procurement supervisor prior to being filed at the DCFS Procurement office to ensure items were properly approved and disposed of.

Recommendation #37

Ensure price quotes are obtained in accordance with County purchasing policies.

DCFS Response: Agree. This is currently being practiced as allowed and within County and ISD purchasing guidelines. Nonetheless, as indicated in the response for Recommendation #3, on February 1, 2016, DCFS management distributed an updated Procurement Departmental Bulletin to Procurement staff instructing them to comply with recommendations contained within this report and ISD guidelines. In addition, on March 1, 2016 and March 3, 2016, Procurement buyers were required to attend Procurement 101 training conducted by ISD that reiterated purchasing practices which included an expanded search criteria that will increase the pool of registered vendors to ensure that the proper number of price quotes are obtained and to assist the buyers in determining the lowest price for goods and services. Also, on May 19, 2016, the Deputy Director, and Procurement and ICS managers met with Procurement staff to reiterate expectations of their need to adhere to purchasing guidelines and instructions.

Recommendation #41

DCFS management require Procurement staff to review agreements prior to making purchases to ensure items are covered by the agreement and that the Department receives the negotiated prices and payment terms.

DCFS Response: Agree. As indicated in the response for Recommendation #3, on February 1, 2016, DCFS management distributed an updated Procurement Departmental Bulletin to Procurement staff instructing them to comply with recommendations contained within this report and ISD guidelines. On March 1, 2016 and March 3, 2016, Procurement buyers were required to attend Procurement 101 training conducted by ISD to reinforce purchasing practices to assist the Department in receiving the best pricing for goods and services. In addition, on May 19, 2016, the Deputy Director, and Procurement and ICS managers met with Procurement staff to reiterate expectations of their need to adhere to compliance with purchasing guidelines and instructions, which included reminding staff to continue to review and utilize applicable vendor agreements prior to obtaining three bids from non-agreement vendors for purchases within the Department's delegated authority.

Recommendation #44

DCFS management ensure Finance staff periodically reviews the eCAPS pending/rejected files to identify and resolve transactions that have been in these files for extended periods.

DCFS Response: Agree. The eCAPS pending/rejected files have been resolved as of May 31, 2016. Rejected files will be included as part of the ongoing review process.

Recommendation #49

Closely monitor implementation of the eCAPS inventory module at DPW and implement it at the earliest opportunity.

DCFS Response: Agree. By August 31, 2016, the Department's Procurement and BIS management will work with ISD and the A-C to evaluate the system to determine the appropriate course of action in implementing the eCAPS inventory module.

Prior Recommendations - Phase II

Recommendation #4

Ensure that program funds are used for reasonable and necessary purposes to operate programs.

DCFS Response: Agree. It is important to note that the six discrepancies related to this finding were related to adult tickets that were given to a secondary adult (i.e., caregiver's spouse, co-guardians, or an adult providing transportation assistance). These adults were not listed individually in the registration log. However, they were included in the total number of tickets given to the caregiver. As a result of this finding, this process and practice have been amended. Currently, all adults are listed even if a ticket is provided for an additional adult who has an identified role with the children. For further clarification, an additional adult ticket is only given for transportation purposes, or assistance with particular children (i.e., handicap, more than one infant, large group of children requiring extra supervision).

